The Daily Dish

Pandemic UI and Poverty

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Eakinomics: Pandemic UI and Poverty

One of the big partisan divides has been the future of the federal pandemic supplement to state-level unemployment insurance (UI). The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided $600 a week in supplemental federal benefits. This provision expired on July 31. In negotiations for additional legislative responses to the COVID-19 recession, Democrats have stuck to an insistence that the $600 provision be renewed and extended through 2020. In their most recent proposal – the so-called "skinny" bill – Republicans proposed an extended benefit of $300 per week.

Among the difficulties in reaching an agreement is that lowering the UI supplement has two opposing impacts. The first is to improve labor market incentives by providing less of a barrier to returning to work. The second is to reduce the flow of transfer income to the unemployed. If everyone who seeks to get back to work succeeds, private sector payrolls will provide income, and the latter impact won't matter. But if there is insufficient demand for the number of willing workers, there is the potential for diminished incomes. This has direct implications for the standard of living and also may figure into a lack of overall demand in the economy.

All that is fine as a conceptual matter. But the rubber meets the road when one has to actually pick a number for any federal supplement. To date, there has been good documentation of the labor market disincentives – particularly the work by AAF's Isabel Soto. What has been missing, however, is the second part of the analysis. Now, Soto is filling that gap as well.

Specifically, Soto looks at each state and calculates the state UI benefit for a median-wage worker and a minimum-wage worker. She then adds in various levels of federal UI supplement and can check whether the resulting income level is adequate. But what does "adequate" mean? To provide an objective standard, Soto uses the federal poverty threshold (FPT) as the measure of adequacy; if the total benefit (annualized) exceeds the FPT, it is adequate and vice versa. In addition, the FPT varies with the size of the household, so she looks at various combinations of household sizes, numbers of workers, and earnings levels.

What do we learn? "Minimum-wage earners are most at risk, but with a $200 weekly UI supplement, all single-person households for whom the earner previously made the minimum wage would exceed the threshold, and with a $400 weekly supplement, families of 4 would not fall below the threshold. Median-wage workers, especially single-person household earners, are less likely to fall into poverty, but to ensure median-wage families of 4 in all states exceed the standard, a $300 a week supplement would be needed." The study has much more detail.

For Eakinomics, at least, the lesson is an old one in economics. The right answer is never at the extremes. In this case, a political deal in the $300-$400 range meets the income support objectives.